BUILDING VALU

ALEXIS NIHON

REAL ESTATE INVESTMENT TRUST

Alexis Nihon

2002 ANNUAL REPORT

Corporate Profile

With over 60 years experience and a reputation for excellence, the Alexis Nihon REIT (TSX: AN.UN) was created in December 2002. The initial portfolio consists of 18 high-quality, diverse real estate assets with 3.6 million square feet, located in the Greater Montreal area. The REIT was created to provide unitholders with an attractive yield and strong, sustainable and growing tax-deferred cash distributions.

Contents

Ce rapport est également disponible en français sur demande

Highlights

- Raised $85 million in initial public offering (IPO), issuing 8.5 million units with an initial yield of 11%
- Underwriters exercised over-allotment option for additional $4.25 million
- Paid $0.03548 per unit distribution for 2002 (for the 12-day period)
- Paid $0.0917 per unit for January and February 2003 distributions
- Announced March 2003 distribution amount of $0.0917 per unit

Objectives and Strategies

- Ensure secure, growing, tax-deferred cash distributions
- Achieve growth in unit value through active management of portfolio and accretive acquisitions

What makes the REIT well positioned for future growth?

- Well-diversified revenue base
- Secure cash flows
- High quality assets
- Excellent growth prospects
- Fully internalized management
- Strong continuing sponsorship by its previous owners (and CEO)

Message to Unitholders

In 1947, when a young Belgian immigrant named Alexis Nihon acquired farmland adjoining what today is Dorval International Airport near Montreal, he had a clear vision of development, growth and prosperity.

Today the enterprise he founded is a major player in Montreal commercial real estate, and on December 20, 2002 the Alexis Nihon Group was reorganized into a real estate investment trust. The initial aggregate public offering of 8.925 million trust units generated gross proceeds of $89.25 million.

Paul J. Massicotte, CA
President and Chief Executive Officer

That transformation marks the first time that public investors have been able to participate in the legacy of Alexis Nihon. It also represents the unfolding of a new and exciting chapter in the enterprise. It is my great pleasure to address fellow unitholders of Alexis Nihon REIT in this inaugural annual report.

The legal and financing structure of our initial public offering was strategically driven by the adoption of the optimal market vehicle to ensure the future success of the enterprise. Over the past several years, equity markets have demonstrated that conventional corporate offerings have fallen from favour. Replacing them are income trusts, and REITs in particular, which generally feature two main objectives: generating reliable, tax-advantaged monthly cash distributions to unitholders, while growing unit value over the longer term.

Alexis Nihon REIT is particularly well suited to the income trust structure because of the conservative nature and quality of our real estate portfolio. It was assembled over a multi-decade time span and reflects a carefully constructed strategic balance between commercial, industrial, retail and residential asset classes.

The REIT's properties are solid, long-term investments that meet stringent tests for construction quality, market suitability and stability of generated cash flow.

The initial portfolio comprises 3.6 million square feet of leasable, income-producing area. Their locations have three main characteristics: they are all in the Greater Montreal area, they are situated in prime office, retail and industrial districts and are well placed near major road arteries, public transportation and – in the case of industrial and mixed-use properties – close to Dorval International Airport.

The diversity of our properties across multiple asset categories is another feature that enhances the predictability of the REIT's cash flow. This characteristic has sustained the portfolio during different market cycles and will continue to do so as we move forward.

A distinguishing strength of Alexis Nihon REIT is our in-house real estate management expertise. The REIT possesses the opportunistic ability to acquire undervalued properties to which we can add value, by the application of our leasing, renovation and repositioning skills.

The principles of diversification and value creation capabilities are well reflected in Place Alexis Nihon. This is our "signature" property, and one of the best-known architectural landmarks in Montreal. The different asset classes within this complex combine diverse synergies to produce a vibrant and thriving downtown micro community. This property and several others in our portfolio are displayed on the pages that follow.

The REIT benefits from a simple organizational structure with continued strong sponsorship from the previous Alexis Nihon Group owners. The company's management and staff, including all systems and assets relating to properties, have been 100% transferred to the REIT. This internalized structure provides the REIT with significant cost savings for its unitholders. Further, the previous Alexis Nihon Group owners (consisting of Robert A. Nihon and myself) have retained 47.2% of the REIT, which gives us a compelling and direct personal interest in its performance.

The REIT has another unique asset – a vigorous corporate culture characterized by dynamic but prudent management in the pursuit of added value. This ethos, originally instilled by the founder, continues to prevail within the organization and is actively fostered by its current leadership.

Going forward, your REIT's growth will be driven both internally and externally. Internal cash flow will be expanded by nurturing tenant relationships, incrementally increasing rental income, controlling expenses and exploiting our repositioning, renovating and releasing skills. External growth will be achieved through accretive acquisitions of substantially leased, income-producing properties below replacement cost.

The REIT's distribution policy requires at least 85% of distributable income to be paid to unitholders on a monthly basis. Because the initial public offering closed on December 20, 2002, there is only a 12-day period to December 31 that applies to reporting of financial results and distributions. Accordingly, the REIT distributed $0.03548 per unit for that period. Starting in January 2003, the REIT began making regular monthly sustainable distributions of $0.0917 per unit, which equates to an annual level of $1.10 per unit.

My significant personal stake in Alexis Nihon REIT means my investment and interest are directly tied to yours. You can therefore expect management to seek out ways to maximize the value of each property, as we also search for acquisitions that will expand distributions. Guiding our decisions will be a focus on stability and growth, building value for unitholders of Alexis Nihon REIT.

To conclude, I would like to thank all our valued employees, tenants, trustees and unitholders for your continued contribution and commitment to Alexis Nihon REIT's prosperous future.

Paul J. Massicotte, CA
President and Chief Executive Officer

Guiding our decisions will be a focus on stability and growth, building value for unitholders of Alexis Nihon REIT.

Place Alexis Nihon

Place Alexis Nihon

Our signature building, Place Alexis Nihon, is a high-profile, multi-use, Class A complex comprising over 1.4 million square feet of gross leasable area with an occupancy rate of 94.2%, including the Head Lease. The property's prominent position in the heart of the city has made it one of the best-known landmarks in Montreal.

Place Alexis Nihon strongly reflects the REIT's strategy of diversification. The complex is comprised of two office towers, an extensive retail shopping concourse and a 27-storey, multi-family residential apartment building. These different asset classes combine diverse synergies that work together to produce a thriving downtown micro community.

1080 Beaver Hall Hill

This building features 316,000 square feet of office space in Montreal's central business district, with a direct connection to the subway system. It is currently 88% leased, including the Head Lease, and our goal is to raise occupancy to 90% by the end of 2003.

777 Ste. Catherine

This award-winning 26,000 square foot building is 100% leased. Located at the corner of McGill College Avenue and Ste. Catherine Street West, this building is at one of the best retail locations in Montreal.

Centre Laval

Anchored by The Bay and Wal-Mart, the building is 98% leased to 130 retail tenants. This is a 630,000 square foot regional shopping centre, situated beside the Laurentian Autoroute.

Management's Discussion and Analysis of Financial Condition and Result of Operations

Unitholders can invest and receive distributions in Canadian dollars with the tax deferral benefits of a Canadian REIT (63% tax deferred). The units are eligible for tax sheltered RRSPs and pension funds.

Use of Proceeds from the Initial Public Offering ("IPO")

The REIT completed its IPO on December 13, 2002 and began operations on December 20, 2002. The gross proceeds of $85.0 million from the issue of 8,500,000 units, net of the underwriters' fees and issue costs of $7.4 million, resulting in net proceeds of $77.6 million. These proceeds were used to acquire 18 income-producing properties.

	($000s)
Net assets acquired:	
Initial properties	$ 359,515
Land transfer taxes capitalized to the initial properties	5,554
Prepaid and other assets	3,502
Assumed mortgages and other loans	(197,590)
Deferred rents	(1,386)
Accounts payable and accrued liabilities	(1,616)
	$ 167,979

Consideration given by the REIT consisted of the following:	
Cash	$ 71,817
Convertible debentures	12,150
Issue of units	84,012
	$ 167,979

The REIT's sources and uses of funds after the completion of the IPO were as follows:	
Initial public offering, net of issue cost	$ 77,593
Payment for the net assets acquired	(27,699)
Repayment of mortgages & other loans	(37,894)
Payment of land transfer taxes	(5,554)
Cash remaining	$ 6,446

On January 20, 2003, the Underwriters exercised their over-allotment option and purchased 425,000 units of the REIT from certain trustees of the REIT for $4.25 million. As a result of the exercise of the over-allotment, the public's economic interest in the REIT increased to 52.8%. The Nihon/Massicotte Group beneficially own the remaining 47.2% economic interest in the REIT.

Objectives of the REIT

The objectives of the REIT are:

i. To provide unitholders with stable and growing cash distributions, payable monthly and, to the maximum extent practicable, income tax deferred, from investments in a diversified portfolio of income producing properties primarily located in the Greater Montreal area; and

ii. To improve and maximize unit value through future acquisitions of additional income producing properties, the ongoing active management of the REIT's properties or interests therein and the acquisition of completed new developments.

Leasing Data

On December 31, 2002, the REIT's overall portfolio weighted-average occupancy rate, including the head lease space, was 95.8% compared with 96.3% at September 30, 2002. The total area under the head lease guarantee represents 218,097 square feet. Of this amount, 60,132 square feet (27.6%) has already been sub-leased. Rental income from the head lease space is guaranteed by the previous owners.

Including head lease space, the weighted-average occupancy rates for office, retail, industrial and mixed-use were 94.4%, 96.3% and 97.5% compared with 95.0%, 96.6% and 97.5% respectively at September 30, 2002.

The multi-family residential occupancy was 94.6% at December 31, 2002 compared with 97.2% at September 30, 2002. The decrease in occupancy in this asset class results primarily from the reduction in the number of units required by a corporate account. Approximately 20 furnished apartments, which had short-term leasing, were vacant at year-end. These vacancies will have a negligible effect on net operating income. Demand for these types of units is strong and management is confident that the units will be leased up in the near term.

Net Earnings and Financial Position

The financial information as at December 31, 2002 and the results of operations for the period then ended are presented in accordance with Canadian generally accepted accounting principles ("GAAP"). The following discussion should be read in conjunction with the consolidated financial statements of the REIT and the notes thereto for the period ended December 31, 2002.

Results of Operations

As the REIT's first fiscal year-end was December 31, 2002, it only had 12 days of operations in 2002.

For the 12-day period, revenues from rental operations were $2,136,000 and net income was $556,000 or $0.032 per unit on both a basic and fully diluted basis. Revenues and operating expenses were in line with management expectations, based on historical results.

During the 12-day period, distributable income totaled $673,000, as referred to in note 16 of the consolidated financial statements, of which 89.1% was distributed to unitholders ($0.03548/unit). In 2002, the REIT had not yet acquired the seven co-owned properties, as defined in the Prospectus. The total amount of distributable income attributable to the co-owned properties would have added less than two percent to the distributable income and is considered insignificant.

Readers are cautioned that distributable income is a non-GAAP measure and should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the REIT's performance. The REIT's method of calculating distributable income may differ from other issuers' methods and accordingly distributable income may not be comparable to measures used by other issuers.

Capital Structure and Liquidity

As a result of the IPO, the REIT had equity of $173.7 million. On January 20, 2003, the over-allotment option was exercised for 425,000 units at $10 which resulted in an increase of the Public's ownership in the REIT from 50.3% to 52.8%.

At December 31, 2002, the REIT had indebtedness of $198.7 million. This results in a debt-to-gross book value (book value of the REIT's assets plus accumulated depreciation and amortization was $374.6 million) ratio of 53.0%, well below the 60.0% threshold the REIT has set.

Distributions and Taxation

The distribution for the 12-day period was $600,000 ($0.03548/unit) paid on December 31, 2002. The REIT had no further taxable income to distribute for the period.

Risks and Uncertainties

Like any real estate ownership, there are certain risk factors inherent in the normal course of business of the REIT.

All immovable property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, demand for leased premises and competition from other available premises.

The REIT will also be subject to the risks associated with debt financing, including the risk that existing hypothecary indebtedness secured by the properties will not be able to be re-financed or that the terms of such re-financing will not be as favorable as the terms of existing indebtness. In order to minimize this risk, upon renewals the REIT will attempt to re-finance hypothecary indebtedness on the respective properties with long-term fixed rate mortgages as well as stagger maturities over time.

Although diversified by asset class and property type, the REIT's portfolio is concentrated in the Greater Montreal Area and will derive all of its income from properties located in Montreal. Consequently, the market value of the properties and the income generated from them could be negatively affected by changes in local and regional economic conditions.

Other than as described above, no single tenant is critical to the REIT's ability to meet its financial obligations. The REIT's broad tenant base assists in attempting to fulfill its primary goal of maintaining a predictable cash flow. Risk is further minimized through a low vacancy rate and relatively few short-to medium-term lease renewals.

Management's Responsibility for Financial Statements

The management of the REIT is responsible for the preparation and integrity of the financial statements contained in the annual report. These statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some amounts that are based on management's best estimates and judgment. Management has determined such amounts on a reasonable basis and considers that the statements present fairly the financial position of the company, the results of its operations and its cash flows. Management has also prepared financial information presented elsewhere in this report and has ensured that it is consistent with that in the financial statements.

To fulfill its responsibility, management maintains internal accounting controls and systems of high quality, and establishes policies and procedures to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to reviews by external auditors during the examination of the financial statements.

The Audit Committee of the Board of Trustees meets regularly with the external auditors, Richter, Usher & Vineberg, and with management to approve the scope of audit work and assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Trustees on the recommendation of the Audit Committee.

Paul J. Massicotte, CA
President and Chief Executive Officer

René Fortin, CGA
Vice President and Chief Financial Officer

Auditors' Report

To the Unitholders of Alexis Nihon Real Estate Investment Trust (the "REIT")

We have audited the consolidated balance sheet of Alexis Nihon Real Estate Investment Trust as at December 31, 2002 and the consolidated statements of income, unitholders' equity and cash flows from the commencement of operations on December 20, 2002 to December 31, 2002. These financial statements are the responsibility of the REIT's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the REIT as at December 31, 2002 and the results of its operations and its cash flows from the commencement of operations on December 20, 2002 to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

Richter, Usher & Vineberg

Richter, Usher & Vineberg
General Partnership
Chartered Accountants

Montreal, Quebec
February 28, 2003

Consolidated Balance Sheet

As At December 31, 2002
(In thousands of dollars)

Assets

Income-producing properties (note 4)	$ 364,964
Cash and cash equivalents (note 5)	8,109
Other assets (note 6)	1,413
	$ 374,486

Liabilities

Debts on income-producing properties (note 7)	$ 190,454
Bank indebtedness (note 8)	8,280
Accounts payable and accrued liabilities	1,482
Due to companies under common control of certain trustees of the REIT (note 9)	521
	200,737

Commitments and Contingencies (note 11)

Equity

Convertible debenture (note 12)	12,176
Unitholders' equity (note 13)	161,573
	173,749
	$ 374,486

See accompanying notes

Approved on Behalf of the Board:

Robert A. Nihon
Chairman of the Board

Philip M. O'Brien
Trustee

Consolidated Statement of Unitholders' Equity

From the Commencement of Operations on December 20, 2002 to December 31, 2002
(In thousands of dollars)

Balance - Beginning of Period	$ -
Subscriptions	169,012
Issue costs	(7,407)
Income subsidy	38
Interest on the convertible debenture	(26)
Net income	556
Distributions	(600)
Balance - End of Period	$ 161,573

See accompanying notes

Consolidated Statement of Income

From the Commencement of Operations on December 20, 2002 to December 31, 2002
(In thousands of dollars, except per unit amounts)

Revenues From Rental Operations	$ 2,136
Rental Property Operating Costs	941
Net Operating Income	1,195
Expenses	
Interest on debts on income-producing properties	421
General and administrative (including amortization on furniture, fixtures and computer of $4)	78
Amortization	105
Trust expenses	35
	639
Net Income	$ 556
Basic and diluted net income per unit (note 15)	$ 0.032

See accompanying notes

Consolidated Statement of Cash Flows

From the Commencement of Operations on December 20, 2002 to December 31, 2002
(In thousands of dollars)

Funds Provided (Used) –	
Operating Activities	
Net income	$ 556
Income subsidy	38
Items not affecting cash	
Amortization	109
Funds from operations	703
Changes in non-cash operating items:	
Other assets	2,085
Deferred rent	(1,386)
Accounts payable and accrued liabilities	(134)
	565
	1,268
Financing Activities	
Proceeds of initial public offering of units (net of issue costs)	77,593
Due to companies controlled by certain trustees of the REIT	521
Bank indebtedness	8,280
Distributions	(600)
Repayment of debts on income-producing properties	(7,136)
	78,658
Investing Activities	
Acquisition of net assets in initial public offering	(71,817)
Change in restricted cash	(3,145)
	(74,962)
Increase in Cash and Cash Equivalents and Balance - End of Period	$ 4,964
Represented by:	
Cash	$ 8,109
Less: restricted cash	3,145
	$ 4,964

See accompanying notes

Additional Cash Flow Information	
Interest paid	$ 6

Notes to the Consolidated Financial Statements

December 31, 2002
(Dollar amounts are in thousands, except per unit amounts)

1. Description of the REIT

Alexis Nihon Real Estate Investment Trust (the "REIT") is an unincorporated closed-ended investment trust created by a contract of trust (the "Contract of Trust") dated October 18, 2002. The REIT was established under, and is governed by, the laws of the Province of Quebec. The REIT began operations on December 20, 2002.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries. On consolidation, all material intercompany transactions and balances have been eliminated.

Income-Producing Properties

Income-producing properties are stated at the lower of cost less accumulated amortization and net recoverable amounts. Cost includes the original cost of the property plus other acquisition-related costs. Net recoverable amounts represents the estimated future net cash flows expected to be received from the ongoing use and residual worth of the properties.

Amortization

Amortization of buildings is provided using the sinking fund method in increasing annual amounts at a rate of 5% per annum compounded annually so as to fully amortize the cost of building over 35 years.

The amounts recorded for amortization of buildings are based on estimates of the remaining useful life of these assets. By their nature, these estimates are subject to measurement uncertainty and the effects of changes in such estimates on the consolidated financial statements of future periods could be significant. Maintenance and repairs are charged to expense when incurred.

Leasing costs and tenant improvements including tenant inducements and allowances are deferred and amortized over the terms of the related leases.

Revenue Recognition

Rents are recognized as revenue over the terms of the related agreements. Percentage rents are recognized when the required level of sales has been achieved. Recoveries from tenants for taxes, insurance and other operating expenses are recognized as revenues in the period that the applicable costs are incurred. Parking and other incidental income are recognized when earned.

Income Taxes

Income taxes for the subsidiary companies are accounted for using the liability method. Under this method, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values.

Future income taxes are computed using substantively enacted corporate income tax rates for the years in which the differences are expected to reverse.

Deferred Financing Costs

Deferred financing costs are amortized over the terms of the related debt.

Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Unit Option Plan

The REIT has a unit option plan as described in note 13. The REIT will recognize the fair value of unit options on their grant date as compensation expense over the period that the unit options vest.

3. Asset Acquisitions

On December, 13, 2002, the REIT raised gross proceeds of $85,000 through the issuance of 8.5 million units at a price of $10 per unit (the "Offering") (see note 13). Costs relating to the Offering include underwriters' fees and other issue costs of $7,407 and were charged directly to unitholders' equity.

On December 20, 2002, a portion of the proceeds from the Offering were used by the REIT to acquire 18 income-producing properties (the "Properties").

Notes to the Consolidated Financial Statements

December 31, 2002
(Dollar amounts are in thousands, except per unit amounts)

3. Asset Acquisitions (cont'd)

Net assets acquired were as follows:	
Initial properties acquired	$ 365,069
Assumed mortgages and other loans	(197,590)
Prepaid and other assets	3,502
Deferred rent	(1,386)
Accounts payable and accrued liabilities	(1,616)
	$ 167,979

Consideration given by the REIT consisted of the following:

Cash	$ 71,817
Convertible debenture	12,150
Issue of units	84,012
	$ 167,979

4. Income-Producing Properties

Land	$ 70,829
Building	294,240
	365,069
Accumulated amortization	105
	$ 364,964

5. Cash and Cash Equivalents

Included in cash and cash equivalents is restricted cash amounting to approximately $3,145 held pursuant to agreements with various mortgage lenders.

6. Other Assets

Deferred financing costs	$ 272
Prepaid expenses	645
Furniture, fixture and computers (net of accumulated amortization of $4)	496
	$ 1,413

7. Debts on Income-Producing Properties

Loans secured by mortgages on income-producing properties, bearing interest at a weighted average annual rate of 6.02% repayable in blended monthly installments of $1,433, maturing at various dates no later than April 4, 2012	$ 189,379
Accrued interest	1,075
	$ 190,454

Principal repayments of debt on income-producing properties are due as follows:

	installments payments	Due on maturity	Total
2003	$ 4,774	$ 41,968	$ 46,742
2004	3,777	26,786	30,563
2005	3,078	18,066	21,144
2006	2,514	3,910	6,424
2007	1,563	78,673	80,236
Subsequent to 2007	479	3,791	4,270
	16,185	173,194	189,379
Accrued interest			1,075
			$ 190,454

The fair value of debts on income-producing properties at December 31, 2002, which approximates their carrying value, has been established by discounting the future cash flows of an interest rate corresponding to that which the REIT would currently be able to obtain for loans with similar maturity dates and terms.

8. Bank Indebtedness

The REIT's $15,000 credit facility consists of an operating demand line of credit. Borrowings bear interest at prime plus 0.50% per annum. The line of credit is secured by a first ranking hypothec on an income-producing property having a net carrying amount of $28,005 and a second ranking hypothec on another income-producing property having a net carrying amount of $137,006.

The terms of the banking agreement require the REIT to meet certain financial covenants.

9. Due to Companies Controlled by Certain Trustees of the REIT

The amounts due to companies controlled by certain trustees at the REIT are non-interest bearing and have no specific terms of repayment.

Notes to the Consolidated Financial Statements

December 31, 2002
(Dollar amounts are in thousands, except per unit amounts)

10. Income Taxes

(a) The REIT is an unincorporated, closed ended investment trust created by the Contract of Trust governed by the laws of the Province of Quebec. The REIT is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Contract of Trust, the REIT will make distributions or designate all taxable income earned by the REIT to unitholders and will deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes has been made. Income tax obligations relating to distribution from the REIT are the obligations of the unitholders.

(b) The REIT's subsidiaries are Canadian-based enterprises which are subject to tax on their taxable income under the Income Tax Act (Canada) at an average rate of approximately 35%. There is no provision required for the period ending December 31, 2002.

11. Commitments and Contingencies

(a) The annual future payments required under emphyteutic leases, expiring from 2020 to 2065, on land for two income-producing properties and a portion of a third income-producing property having a net carrying value of $36,522, are as follows:

2003	$ 411
2004	411
2005	411
2006	411
2007	415
Subsequent to 2007	17,876

(b) The REIT is committed to payments under a service agreement for the maintenance and management of an income-producing property, expiring in June 2006. The estimated minimum payments required under this agreement are approximately as follows:

2003	$ 1,583
2004	1,605
2005	1,628
2006	825

12. Convertible Debenture

On December 20, 2002, the REIT issued $12.15 million principal amount of subordinated unsecured convertible debenture (the "Convertible Debenture") at par. The Convertible Debenture bears interest at 6.5% per annum is payable quarterly and will mature December 31, 2005. Provided that there is not a then current event of default, the REIT may elect at its option to satisfy any obligation to pay interest on any interest payment date, and/or the principal amount on maturity or the redemption date, by delivering units of the REIT equal in value at the date of payment to the amount due. The payment of the principal of, and interest on the Convertible Debenture will be subordinated in the right of payment to the prior payment in full of all senior indebtedness of the REIT. The Convertible Debenture will be convertible, subject to certain restrictions, in whole or in part, at the holders' option, at any time, into 8.695 units per $100 of face value (in aggregate, 1.057 million Units), subject to an anti-dilution adjustment, representing a conversion price of $11.50 per unit.

The Convertible Debenture is considered an equity instrument and, as such, is reflected on the balance sheet of the REIT as a component of equity. Therefore, the interest related to the Convertible Debenture is chargeable directly to unitholders' equity. As at December 31, 2002, accrued interest on the convertible debenture amounted to $26.

Notes to the Consolidated Financial Statements

December 31, 2002
(Dollar amounts are in thousands, except per unit amounts)

13. Unitholders' Equity

Units Issued and Outstanding

The interests in the REIT are represented by a single class of units which are unlimited in number. Each unit entitles the holder to a single vote and carries the right to participate in all distributions.

The number of units issued and outstanding is as follows:

	Number of Units	Amount
Units issued in the Offering (note 3)	8,500,000	$ 85,000
Units issued to entities controlled by certain trustees of the REIT	8,401,200	84,012
	16,901,200	$ 169,012

Unit Option Plan

On December 20, 2002, the REIT adopted a unit option plan (the "Plan"), which is subject to the rules of the Toronto Stock Exchange. Unit options may be issued to employees, directors, officers or Trustees of the REIT, its wholly-owned subsidiaries as well as certain trusts of which the REIT is directly or indirectly a beneficiary. The total number of units in respect of which options may be granted under the Plan may not exceed 2,535,180 units. The unit option plan provides that at no time shall the number of units reserved for issuance under the Plan exceed 15% of the then outstanding units. The exercise price of the options will be equal to the market price of the units on the day before the day on which the option is granted. The option shall be exercisable for a period not exceeding 10 years. No grants have been awarded under the Plan.

14. Financial Instruments

Credit Risk

Management reviews a new tenant's credit history before signing new leases and conducts regular reviews of its existing tenants' credit performance.

Interest Rate Risk

The REIT is exposed to interest rate risk on debt on income-producing properties which bear interest based on prime rates. The fair value of the debt will fluctuate as a result of changes in interest rates.

Fair Value of Financial Instruments

The fair value of the majority of the REIT's financial assets and liabilities, representing net working capital, approximates their recorded value due to their short-term nature except for the fair values of other debts on incomeproducing properties as reflected under note 7.

15. Net Income Per Unit Calculations

Basic and diluted per unit amounts are based on the following:

	Basic	Diluted
Net income	$ 556	$ 556
deduct: interest on convertible debenture	(26)	-
Net income available to unitholders	$ 530	$ 556
Weighted average units outstanding	16,901,200	16,901,200
add: incremental units from assumed conversion of convertible debenture	-	1,056,442
Weighted average units used in calculation	16,901,200	17,957,642

16. Distributable Income

Distributable income is presented because the REIT believes this measure is a relevant measure of its ability to earn and distribute cash returns to unitholders. Distributable income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Contract of Trust as follows:

Net income	$ 556
Add (deduct)	
Interest on the convertible debenture	(26)
Income subsidy	38
Amortization	105
Distributable income	$ 673

Basic and diluted per unit amounts are calculated as follows:

	Basic	Diluted
Distributable income	$ 673	$ 673
add: interest on convertible debenture	-	26
Distributable income available to unitholders	$ 673	$ 699
Distributable income per unit	$ 0.040	$ 0.039

Basic and diluted distributable income per unit are calculated using the same weighted average units as described in note 15.

Notes to the Consolidated Financial Statements

December 31, 2002
(Dollar amounts are in thousands, except per unit amounts)

17. Segmented Information

The segmented information is aligned to conform to the REIT's strategic business unit organization and is disaggregated among four segments: office, retail, industrial and mixed-use and multi-family residential properties.

The operating segments are managed separately because of the different type of properties, tenants and marketing strategies involved. The REIT evaluates segment performance based on operating income which is entirely allocated amongst the segments.

The REIT utilizes the same accounting policies for its segments as those described in note 2.

	Office	Retail	Industrial and mixed-use	Multifamily residential	Total
Revenues from rental operations	$ 912	$ 836	$ 226	$ 162	**$ 2,136**
Rental property operating costs	431	343	78	89	**941**
Net operating income	481	493	148	73	**1,195**
Income-producing properties	$ 158,957	$130,035	$ 41,917	$ 34,055	**$ 364,964**

18. Related Party Transactions

Income Subsidy

In order to provide unitholders of the REIT with a current income stream reflecting an expected lease renewal for a specific tenancy and a contractual rental increase for a specific tenancy, companies under common control of certain trustees of the REIT have provided an income subsidy (the "Income Subsidy") to the REIT equal to such expected renewal and contractual rental increase, until such time as the Income Subsidy has been replaced by rental income from occupying tenants. For 2002, the Income Subsidy amounted to $38.

Head Lease

In order to provide unitholders of the REIT with stable, predictable revenues in respect of certain vacant spaces that are expected to be leased in the near term, the head lessee, a company under control of certain trustees of the REIT, entered into the head lease with the REIT. The head lease is for a term of 10 years and applies to approximately 218,999 square feet of leasable area of the Properties at specified market rental rates. For 2002, the head lease revenue amounted to $99.

As security for the obligation of the Income Subsidy and head lease, a company under common control of certain trustees of the REIT has pledged a portion of the convertible debenture having an aggregate value of not less than $10 million.

19. Subsequent Event

On January 20, 2003, the underwriters' exercised their option to purchase an additional 425,000 units for $10 each on the same terms as the original unit offering. This resulted in increasing the public's ownership of the REIT from 50.3% to 52.8%.

Summary of Properties

The Alexis Nihon REIT's portfolio consists of 18 income-producing properties, comprising over 3.6 million square feet. Diversified across four asset classes, the properties are all located in the Greater Montreal area.

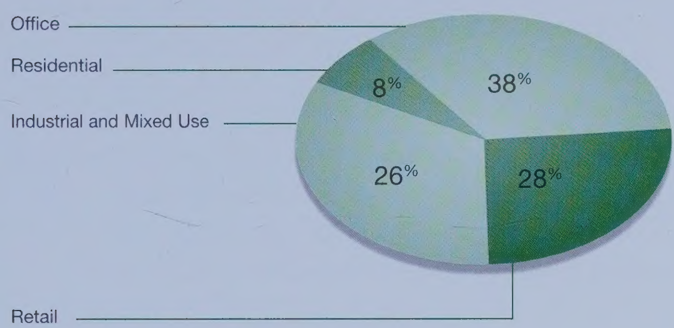
Type	Properties	Sq. ft.
Office	7	1,370,633
Retail	2	1,040,998
Industrial/Mixed Use	9	947,703
Multifamily residential	N/A*	300,321
Total	18	3,659,655

*With respect to the "number of Properties", Place Alexis Nihon has been included in the office properties category and includes an office, retail and multifamily residential component.

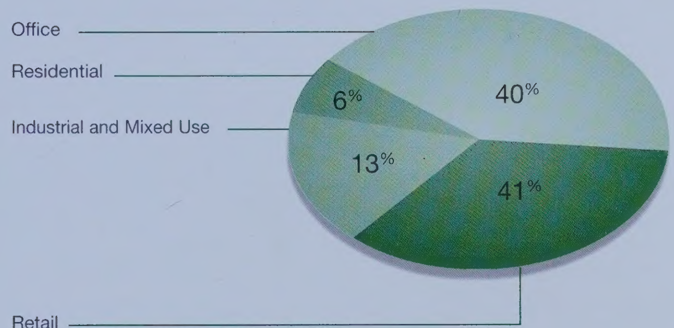
	Sq. ft.
Office	
Place Alexis Nihon, Montreal	611,535
1080, Beaver Hall Hill, Montreal	316,408
4700 De La Savane Street, Montreal	189,384
455 Fénélon Boulevard, Dorval	94,848
9900 Cavendish Boulevard, St-Laurent	82,977
9999 Cavendish Boulevard, St-Laurent	50,637
9960-9970 Côte-de-Liesse Road, Lachine	24,844
Retail	
Place Alexis Nihon: 1500 Atwater Street, Montreal	382,900
Centre Laval, 1600 Le Corbusier Boulevard, Laval	631,762
777 St. Catherine St. West, Montreal	26,326
Industrial/Mixed Use	
3071-3075 Louis A. Amos Street, and 1922-1996 Onésime-Gagnon Street, Lachine	164,262
1615-1805 55e Avenue, Dorval	158,304
3339-3403 Griffith Street, St-Laurent	118,114
8100, Cavendish Boulevard, St-Laurent	114,596
1949 Onésime-Gagnon Street, Lachine	95,795
2260, 32e Avenue, and 3142-3190, Joseph-Dubreuil Street, Lachine	92,429
2102-2150, 32e Avenue, Lachine	77,400
2024-2080, 32e Avenue, Lachine	68,320
6320-6380, Côte-de-Liesse Road, St-Laurent	58,483
Multifamily Residential	
Place Alexis Nihon: 4000 De Maisonneuve West, Westmount	300,321

Portfolio Analysis

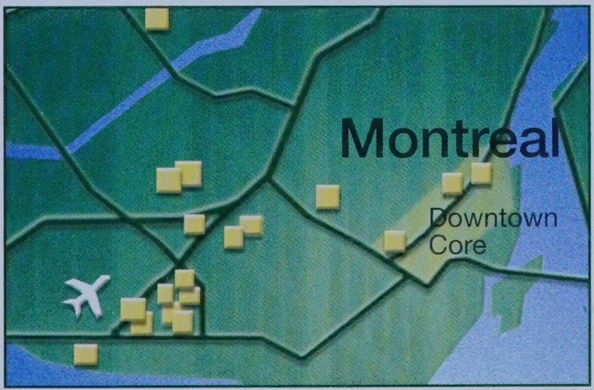
Leasable Area



Net Operating Income



Geographic Distribution



Corporate Governance

The Board and the management team are committed to a high standard of corporate governance. Effective governance requires specified reporting structures and business processes, a strategic plan and the commitment to adhere to these. The Trustees believe that not only does sound corporate governance contribute to confidence and trust in the Alexis Nihon REIT but it also contributes to unitholder value.

The Toronto Stock Exchange has set out Guidelines For Effective Corporate Governance as a model for boards of TSX-listed enterprises. The guidelines constitute a voluntary code of structure and procedure, and listed enterprises must disclose their approach to corporate governance with specific reference to these guidelines, on an annual basis. The Trustees believe that the REIT meets these guidelines and it has disclosed its Statement of Corporate Governance Practices in the REIT's 2003 Management Information Circular.

The Alexis Nihon REIT conforms to the TSX guidelines to the extent consistent with the structure of the REIT and the terms of the Contract of Trust, which mandates that the Trustees act honestly and in good faith with a view to the best interests of the REIT.

A majority of the Trustees (four out of seven) are independent and unrelated to management. Further, the Audit and Corporate Governance Committees of the Board are 100% independent.

The Corporate Governance Committee is responsible for assessing corporate governance guidelines, evaluating the effectiveness of the Board of Trustees and reviewing the performance of management and reviewing and recommending independent candidates for the Board, amongst other things.

The Trustees have adopted a public disclosure policy to ensure the REIT provides timely, complete, consistent, fair and credible public disclosure of material information in a transparent manner. The Trustees have also adopted an insider trading policy to govern trading in units of the REIT by REIT insiders and their affiliates.

Corporate Information

Officers

Paul J. Massicotte
President and Chief Executive Officer

René Fortin
Vice President and Chief Financial Officer

Raymond C. Bouchard
Vice President, Operations

Wally Commisso
Vice President, Property Management (Suburbs)

David De Santis
Vice President, Acquisitions and Development

Pierre Destrempes
Vice President, Downtown Office Leasing

Céline Fournier
Vice President, Shopping Centre Leasing

Serge Morand
Vice President, Suburban Leasing

Lieba Shell
Vice President, Legal Services

Roger Turpin
Vice President, Treasurer and Secretary

Board of Trustees

1 Audit Committee
2 Compensation Committee
3 Governance Committee
4 Investment Committee
5 Head Lease Committee

Investor Relations

René Fortin
Vice President and Chief Financial Officer
(514) 737-3344 ext. 264
rfortin@alexisnihon.com

Corporate Office

6380 Côte-de-Liesse Road
Montreal, Quebec
H4T 1E3
(514) 737-3344

Transfer Agent

National Bank Trust
1100 University Street
Montreal, Quebec
H3B 2G7

Annual General Meeting

May 12, 2003 at 4:15 p.m.
The Sheraton Centre, West Ballroom
1201 René Lévesque Blvd. West
Montreal, Quebec
H3B 2L7
(514) 878-2000

Listing

Toronto Stock Exchange
TSX: AN·UN

www.alexisnihon.com

Alexis Nihon